

Global Trends 2020 – East Asia

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If the nine key drivers listed below continue along paths currently apparent, East Asia will develop three broad trends to 2020. First, Northeast and Southeast Asia will progress along divergent paths: the countries of the North will become wealthier and more powerful, while the largest states in the South – Indonesia and the Philippines – will become poorer, more populous, and more unstable. As Northeast Asia acts as a political and economic centre of gravity for the countries of the South, parts of Southeast Asia will be a source of transnational threats to the countries of the North. Second, China's power will grow, along with its intention and capacity to exercise influence in the region. This will make its interaction with the US, both bilaterally and in terms of the influence each power exerts on the other states of East Asia, one of the most important shaping forces in the region to 2020. Third, a range of powerful transnational forces will affect East Asian societies, transforming human aspirations, political attitudes, state-society relations and patterns of governance. As globalisation pulls humans towards greater urbanisation, consumption and social dislocation, societies will become demanding of governments in different ways and with a range of new expectations. These transnational forces are likely to exercise a major influence on how inter-state relations develop in East Asia and between East Asian states and others.

But many of the drivers will spur endogenous reactions, for example government policy responses, that will modify their trajectories. Then there are events that could send each of these trends along a different path. While any particular trend-changing event individually may have a low likelihood of occurring, the likelihood of *none* occurring is not very high. As we look further into the future towards 2020, the likelihood of current trends continuing undisturbed falls.

1. Demographics

Northeast Asia and Southeast Asia will develop diverging demographic patterns to 2020. This will set up important economic, migration and political dynamics within East Asia as population pressures lead to people movements, and political reactions to those movements.

In line with the trend in the developed world, the states of Northeast Asia will begin to experience a significant slowing of their population growth rates. Japan's population will peak by 2006 and then begin to decline. South Korea and China will experience the beginnings of an absolute decline in population after 2020. These three states will also have significantly ageing populations. By 2020, 25% of Japan's population and 15% of Korea's will be over 65; nearly 400 million Chinese will be over 65 by 2020.* These

* While China's demographic trends will develop along lines similar to those in the developing world, they are of course the result of different causes, predominantly the one-child policy. This will bring consequences for China not experienced in Japan and Korea, such as the economic and social effects of a pronounced male-female imbalance and the political effects of an indulged and self-interested generation of 'little Emperors'.

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states will seek to manage their ageing populations while preserving economic growth and levels of public goods provision: economic restructuring and increased imports of labour-intensive manufactures will be part of the response, as will limited immigration in key sectors like health care.

In contrast, the populations of Southeast Asian states will grow strongly. Indonesia, the Philippines (where the population is projected to double – to 170 million – within 30 years) and Vietnam are projected to have the greatest population increases by 2020, but others will not be far behind. And the birth rates of Muslims will probably continue to be higher than in other religious/ethnic groups. This means that states such as Malaysia will become less ethnically balanced, others such as Singapore will become more so, and countries like Thailand and the Philippines with disadvantaged Malay minorities may face even worse internal separatism.

In Indonesia, the Philippines, and perhaps Burma, population growth rates threaten to outstrip economic growth and the capacity of governments to provide basic infrastructure and public services. Southeast Asia's two most populous states face the prospect of becoming poorer by head of population despite moderately positive absolute economic growth projections. And the strain of population growth on education systems could see a decline in literacy levels, a trend with negative portents for future economic growth.

Urbanisation will concentrate the population pressures on economic prosperity, infrastructure and the environment in China and most of Southeast Asia to 2020. In China, economic incentives, water shortages and environmental damage will drive people to the southern cities at a rate that will see near-equality of China's rural and urban populations in 2020. Capital cities in Southeast Asia, already overcrowded, will continue to draw people from rural areas, placing a growing strain on already-inadequate infrastructure and public services. In Indonesia, provincial capitals may absorb some of the urban migration, but Jakarta will not escape further overcrowding.

The economic drivers of internal migration to the cities will also spur migration between countries in East Asia. Southeast Asians, currently quite mobile within the region, are likely to begin to try their luck more often further afield, in Northeast Asia and elsewhere in the developed world. A major change could occur in the willingness of populations to migrate illegally. Population and poverty pressures could see significant outflows of illegal immigrants to the developed world from societies that have not hitherto produced them, such as Indonesia, the Philippines and Malaysia.

Chinese will probably make their way into Southeast Asia, not as low-cost labour, but as entrepreneurs (and criminals) seeking investment opportunities. Already-established ethnic Chinese communities will continue to be successful, and will serve as economic links to the mainland China economy. If ethnic Chinese populations in Southeast Asia are attacked or threatened, it may produce a nationalist reaction in China that forces Beijing to exert its influence in Southeast Asia, possibly leading to political tensions. A serious economic downturn or a sustained bout of civil conflict in China could see a major, destabilising outflow of Chinese into Southeast Asia.

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A populous, urbanised, and interdependent East Asia will be vulnerable to disease epidemics. The Pearl River Basin in southern China, which combines high population density and close contact between humans and animals will continue to be an incubator of dangerous zoonotic diseases.* Some states will be more able to handle SARS-type outbreaks than others. Japan, with its advanced healthcare system and practiced emergency services, will be more effective in containing an outbreak than Indonesia, with its rudimentary health care systems and tenuous control over the movement of people across its borders.

AIDS, a widespread problem in East Asia which has not yet become obvious, will begin to bite as large numbers of the infected begin to die. It will have a disproportionate effect on working and childbearing generations and regional militaries. While the prospect of a cure for AIDS is feasible between now and 2020, this will probably not affect its lethality among those with advanced infections, and will have much less impact among populations and countries that are in denial about or lack the resources to tackle their AIDS problem.

2. Natural Resources and the Environment

Most states in East Asia are reliant on energy supplies external to the region and will become more so. The demand for energy will outstrip domestic reserves even in oil-producing states like Indonesia. East Asian states will grow more dependent on Middle Eastern oil, but will seek to diversify supply through Central Asian and other sources of energy. This, and the tendency for East Asian states to take equity in resource projects, means that Japan and China will take an even greater interest in developments in important oil-producing regions than they are now. China in particular will be determined to protect its sea lanes to the Middle East. East Asia's thirst for oil and gas is also likely to allow Russia to exercise resource diplomacy in regional politics.

Population growth in Southeast Asia and environmental damage across the region mean that East Asia will see a rise in tensions over common pool resources, such as water and fish. Some states will be pushed towards open confrontation. Water and fishing disputes are already common and these may intensify, particularly during supply emergencies. The effect of the damming of the Mekong on fragile ecosystems – and the economic activity they support – downstream could lead to tension between China and its southern neighbours, testing China's commitment to regionalism. The search for new sources of key resources, like hydrocarbons, could lead to further conflicts over territoriality.

It is likely that irregularities and shifts in rainfall patterns will continue and perhaps increase to 2020. An ongoing northward movement of monsoon activity, or the foreseeable increase in the 'dwell times' of El Nino, could see an increase in droughts and water shortages in Southeast Asia and seriously affect crop yields. These patterns will have a significant impact on regions in which there is a dependence on subsistence agriculture, or where there is existing environmental damage such as erosion and

* The result of a virus crossing from animals to humans.

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deforestation, or where rivers and other water courses have been diverted into large infrastructure projects. Many of the environmental problems in East Asia will be worsened by their cumulative nature, such the effect of land-clearing practices on water supplies and salination in parts of Java.

3. Science and Technology

While internet coverage of East Asia will probably not be complete by 2020 – some rural communities may not even have electricity by then – an increasing number of East Asians will be regular users of the internet, especially among younger people. Societies and economies will deepen their dependence on the internet as a conduit for communication, business and administration. The internet will be progressively engineered to better cope with random disruptions, but it will continue to be vulnerable to targeted disruptions of key nodes. As developed countries harden their internet nodes against random and purposive attacks, it could begin to magnify the exposure of developing countries to cyberspace ‘hiccups’.

Communications technology, including the internet and mobile telephony, may affect political outcomes. Though the dissemination of information and ideas through the internet may have peaked, as technological advances are likely to provide governments with a greater ability to control information flows, communications technology will interconnect populations as never before, providing people with multiple, independent sources of information about the government and society. The internet may also see traditional political machines in technologically-advanced countries lose ground to younger generations able to communicate electronically with voters. In China and elsewhere in East Asia the internet may also act as an incubator and disseminator of nationalist and extremist views.

East Asia will continue to try to develop centres of scientific and technical innovation to rival those in the US and Europe. Many talented East Asians will continue to be attracted to the big centres of research in Europe and North America, although a reverse tendency is beginning to develop, where East Asian scientists who have worked in the US are beginning to return to their own countries, taking their experience and expertise with them. Most East Asian countries’ already-impressive capacity to adopt and use innovations from elsewhere will probably quicken, sometimes resulting in East Asian countries’ picking up and applying American technological breakthroughs faster and more effectively than US industry can.

4. The Global Economy and Globalisation

East Asia’s integration into the global economy is likely to continue, with most states opening their economies further in order to attract investment. This broadly positive outlook, however, is contingent on maintenance of an open international economic and trading system.

Constraints will persist in the shape of institutional weaknesses and the desire to protect sensitive sectors, as in Japan. But the imperative of economic growth may also lead to institution-building. The diversion of investment towards China and India may spur

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Southeast Asia to implement plans for a single economic community and investment area by 2020.

China is set to reap the biggest gains from globalisation in East Asia to 2020. Beijing aims to maintain its current growth trajectory and quadruple GDP by 2020, becoming the world's largest economy. But China faces challenges that could restrain growth: AIDS, pension shortfalls, environmental degradation, social unrest and problems that could flow from a stalled or mismanaged economic transition. China also faces ongoing dilemmas in complying with multilateral trade agreements while seeking to maintain its high economic development rates.

Foreign direct investment flows into China will continue to outstrip those to Southeast Asia because of ongoing structural weaknesses there. And Chinese exports will increasingly compete with Southeast Asian exports on global markets. But China's expansion will also provide large economic opportunities for Southeast Asian economies. Overall, they stand to gain more than lose from Chinese growth.

Economic development in East Asia will be uneven, heightening disparities within and between countries. A growing divide may emerge between richer cities and poorer rural communities. States and populations bypassed by investment and development will grow more resentful. Political tensions will rise between developing and stagnant communities — especially if governments focus on urban centres at the expense of hinterlands. Economic disparities will also drive labour migrations, another contributor to political tensions.

Increasing integration with the global economy will continue East Asian economies' vulnerability to economic shocks, and periodic crises and downturns are inevitable. The gap between states adapting more or less efficiently may grow, affecting regional relationships. Indonesia stands out as a country likely to struggle to meet the challenges of globalisation, increasing the risks of social and political volatility and making Jakarta an often awkward and sullen partner in the region.

Recurring economic crises could lead some East Asian states to become more insular and increasingly disaffected with global economic and financial institutions. Crises will also affect the development of regional economic and financial monitoring and policy mechanisms. If mechanisms such as an Asian Monetary Fund are looked to in times of crisis, and are effective in their responses, regionalism will be reinforced as a political and identity imperative, possibly at the expense of global institutions.

5. National and International Governance

National Governance

Authoritarian states in East Asia are unlikely to be able to avoid ceding some control and popular participation in government in the years to 2020. China will struggle to maintain an authoritarian political system as the economy expands and a generation of the Chinese elite becomes increasingly familiar with democratic concepts and expectations. And ruling interests in Laos, Cambodia, Vietnam and Burma will face growing public

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recognition that they are responsible for sclerotic systems that are obstacles to more promising futures. But the changes in these states may not amount to full-scale, Western-style democracy, and greater popular participation may not necessarily bring stable or even better government.

Most democratic or quasi-democratic states in East Asia will face challenges to their established structures and cultures of governance. Indonesia, the Philippines and Thailand will be increasingly unable to reconcile entrenched interests with the needs of the people, and as their democratic systems prove unable to deliver on expanding popular demands, threats to democracy could arise. Extended periods of experimentation and fine-tuning the frameworks of government, from Japan to Indonesia, are in store. More authoritarian states like Singapore may find popular demands for greater accountability and participation will rise as economic growth rates flatten. Literacy rates will remain high in Northeast Asia but could well decline in parts of Southeast Asia such as Indonesia, the Philippines and Burma, reinforcing the dangers to democracy south of the equator.

Many East Asian states have in the last decade experienced a growing tendency of populations to blame their governments for bad things that happen, such as the SARS epidemic. This trend will probably continue, particularly as popular communication is further facilitated by new technologies, placing greater expectations on governments with a limited capacity to deliver. This effect may be more pronounced within authoritarian states, where populations are newly-able to affect government policy, and have not yet become cynical and apathetic about governance issues. In many East Asian countries, from China to Indonesia, public opinion and popular nationalism are establishing limits to government policies. This trend will possibly continue, with dangerous consequences if the region becomes prone to confrontations.

International Governance

Regional structures of governance in East Asia will develop slowly to 2020. While a strong leader and vision for institutional regeneration are unlikely to emerge from within any of its member countries, ASEAN will continue to be too important to other states to be allowed to wither. ASEAN and APEC will remain vital aspects of China's policy of regional engagement. China has capitalised on ASEAN's post-economic-crisis lack of leadership and direction to build its influence in Southeast Asia, and will continue to do so. Japan's and South Korea's relationships with ASEAN are to some extent pulled along by China's influence and initiatives, and will continue to be. All three countries have an ongoing interest in ASEAN+3, and will probably move towards a separate North Asian economic grouping as well.

While APEC will continue to be an important forum, especially for annual Leaders' meetings, East Asian concerns about US regional dominance could see East Asian regionalism channelled increasingly into regional institutions that do not include the US, like ASEAN+3. But different levels of government accountability in the region will mean that deep, European-Union-style integration will not develop by 2020. East Asian institutions that exclude the US may be used by regional states that are aligned with the US to balance between China and the US. The growing economic weight of East Asian

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economies will see pressure for more of a voice within multilateral economic institutions like the IMF and the World Bank.

East Asian institutions will move away from progressing according to the 'lowest common denominator' principle: institutional development will partly be driven by increasing institutional flexibility that allows the formation of economic 'coalitions of the willing'. As competition increases for investment and trade access within East Asia, and between East Asian states and others, there will be conflict over the fairness of trade and investment rules and agreements. Such conflicts will become more common as manufacturing capacity is relocated within East Asia and as growth performances diverge.

6. Future Conflict

East Asian states will arm at different rates, resulting in an even greater preponderance of military weight in Northeast Asia by 2020. Japan will probably retain the most technologically sophisticated armed forces in East Asia, apart from those of the US. It will revise its constitution to allow it to play an increasingly active role in its own defence. South Korea will continue with its military expansion, focused less on defending against the North and more on building a capacity that may eventually be required to defend the interests of a reunited Korea. China's military modernisation will proceed apace, driven by the desire to deter US intervention in the Taiwan Straits.

Southeast Asian armed forces, apart from those of Singapore, will remain third-tier acquirers of military equipment: unable to produce much of their own, unable to afford cutting-edge materiel or even large amounts of readily-available average-quality equipment. This may change in the highly unlikely event of an arms race. Most Southeast Asian states have been slowly developing their air and maritime capabilities. Their small-scale air and maritime weapons purchases, while currently not constituting a serious capability, have established platforms for the future development of serious air and maritime forces. Buying more capable missiles will be a key military objective for many states in East Asia.

The possibility of major inter-state conflict in East Asia to 2020 will remain moderately high compared to other regions. The Korean peninsula and Taiwan Straits issues will likely come to a head by 2020, risking conflict or giving rise to new security dilemmas. Korean reunification would place pressure on the US-Japan alliance, since the US troop presence in Northeast Asia could no longer be justified by the need to defend South Korea, and could lead to Japan and a reunified Korea to acquire nuclear capabilities. The resolution of the Taiwan issue would see China free to reorient its strategic attention elsewhere in the region and along its borders. The discovery of large hydrocarbon deposits in the South China Sea would add another conflict detonator to the region.

Conflict within Southeast Asian states, in the form of separatist insurgencies and terrorism will continue. Sporadic communal violence will plague some of the Southeast Asian states, with the potential to influence broader Islamic movements and to draw dangerous militants into the region. It is possible that China could face sustained internal

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armed unrest, either from separatist movements along its western frontiers, or from its growing pool of the disgruntled unemployed, particularly including demobbed PLA soldiers.

7. Major Power Dynamics

The roles of and interaction between the region's major powers — China, Japan and the US — are likely to undergo significant change by 2020. The US's military, entrepreneurial, economic, scientific and technological strengths should ensure it remains the predominant power in East Asia for some time, though its ability to translate its power into influence will depend on how skilfully it manages its wide array of regional relationships. US security relationships in the region are likely to endure, though changes in the US forward presence, and in US and regional threat perceptions, may lead to a loosening of these ties.

China's influence in East Asia will loom ever larger — whether it succeeds or fails. Between now and 2020, China is likely to develop even more into an economic and political centre of gravity, exercising a growing influence on the calculations of other states. Growing Chinese influence will not require nor develop into a network of formal alliances. Its regional initiatives will increasingly be followed by others, and East Asian states will become more careful to avoid crossing its interests.

The US and China have strong incentives to avoid confrontation. Their relationship inevitably contains elements of competition. But China needs the US to remain strategically engaged in North Asia as a restraint on Japan's military and nuclear development. The US, in turn, looks to China to exert a restraining influence on North Korea. In the short term, shared economic interests are likely to outweigh economic frictions. But in the longer term, constructive economic relations will depend on the state of the wider political and security relationship.

Rising nationalism in China, and fears in the US of China as an emerging strategic competitor, could fuel an increasingly antagonistic relationship, with Taiwan the likeliest catalyst for crisis. Despite awareness of the risks in all three capitals, the potential for miscalculation will remain. A combination of factors, including China's military capability developments and the 2008 Olympics, point to 2008-2010 as a particularly dangerous period.

China's growing regional power and influence will pose a dilemma for Japan. Japan's responses could include competition with China, drawing closer to Washington or attempting a more assertive regional role. A key determinant will be the nature of any final settlement on the Korean peninsula. Nevertheless, Japan's will and capacity to play a larger role in the region will remain open to question.

All regional states want to avoid having to choose between the US and China. The US will remain important for economic and security reasons, and to forestall the possibility of Chinese hegemony. But accommodating China's rising power will increasingly be their main pre-occupation.

8. Ideational Flows

Western culture and political values will continue to exercise a powerful influence on East Asian societies to 2020. These will partly be driven by the other aspects of globalisation, and partly by conscious strategy of the US, which will continue to be deeply attached to its values and assertive in spreading them abroad.

Non-Muslim East Asia is likely to absorb and adapt to the continuing spread of Western values. In Buddhist-influenced societies such as Thailand, value systems are generally tolerant and pragmatic, less concerned with shaping society than with shaping the self. Many East Asian states have already absorbed many of the shocks of Western culture, adapting certain elements while rejecting others. The East Asian youth culture, centred on Japan but also affecting other North Asian youth populations, will continue to be largely an indigenisation of Western youth counter-culture rather than a rejection of it. East Asian youth, like their counterparts elsewhere, will continue to experiment with lifestyle sampling and contained rebellion in the form of designer drug use, fashion, and other types of non-conformity.

Yet reactions against Western values are likely. The question of an East Asian identity will probably arise again before 2020. Common reactions to the advance of Western values, and fears of their consequences for Asian societies, have the capacity to promote intra-regional identification with an amalgam of 'Asian values', and have the potential to shape regional governance structures.

More destabilising will be reactions within Muslim East Asia to the spread of Western values. The growth of Islamic fundamentalism, already well advanced in states like Indonesia and Malaysia, will continue as Muslim populations react negatively to Western values such as secularism, sexual liberation, and even democracy. Strongly influenced by developments within Islam in the Middle East as well as indigenous extremism, East Asian Islam will manifest violent elements for some time to come.

The dislocations brought about by rapid development could also see the breaking down of traditional social values. This may lead to a widespread value-free anomie or the rise of alternative value systems. A possible transformation could occur in how China views its rightful role in the world, towards a desire for much more assertive competition with the US and to play a decisive role beyond East Asia.

9. Trends in State Structures

The most likely candidate for state failure in East Asia is North Korea, yet failure is not inevitable. There are three possible futures for the DPRK. One is a disorderly collapse of the state, attended by economic and social chaos and massive refugee outflows. Another is a gradual process of reforming North Korea's economy trending towards a smooth reunification with South Korea in the future. A third possibility is that the North Korean state will stagger on, propping up its sagging economy with injections of aid and continuing to stifle popular dissent.

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After its experience with East Timor, Indonesia will be sensitive to any challenges to its territorial integrity by any of its provinces. Any further secession from Indonesia will further raise its resentfulness and suspicions of the outside world. Indonesia as well as its neighbours in Southeast Asia will be unable to allay the porousness of their borders to transnational flows. States like China and Indonesia may be forced toward granting greater autonomy to the provinces.

A likely longer-term effect of the War on Terror will be the greater attention paid by East Asian states to border protection and the devotion of more resources to internal security and surveillance. A prolonged period of increased alertness to transnational terrorism has seen the removal of some of the limits to forceful government action against security threats. States are also likely to define and deal with other challenges as security threats.

Indonesia, the Philippines and Burma face futures in which their burgeoning populations and festering social conflicts will threaten to outstrip the state's capacity to provide basic infrastructure, services and security. Their governments will be increasingly internally-focussed, and while not failing, will be unable to move their countries forward or develop them significantly.

It is possible that the 'governance gap' between viable states and weak states will widen in the years to 2020. Strong states that are well-positioned to attract further investment and make the most of opportunities presented by the global market will become stronger, while unstable states are likely to continue to be bypassed by investment and growth, adding to their instability and marginalisation. A major issue for East Asia and elsewhere will be whether transnational threats from failing states will threaten stronger states, and in turn whether the governance gap needs to be narrowed through concerted action.

‘Wild Cards’ That May Alter East Asia’s Future to 2020

1. *China crashes*, as the drive for economic growth unleashes social and political forces that the Communist Party is unable to appease or control. An initially non-violent protest movement spreads via the internet, but becomes violent when the Chinese government reacts with force. Unrest frightens away investment and chokes economic growth. China provokes conflict with Taiwan as a last desperate ploy to unite the population behind the Communist Party.
2. *Multilateral trade negotiations stall* for a decade as developing countries raise their demands in the Millenium Round talks, and developed economies react by turning inwards and trying to construct OECD-only agreements. Disruption of trade and financial flows causes major economic distress in East Asia, strengthening nationalism and support for chauvinist leaders.
3. *Democracy fails* in Southeast Asia, with the combination of populist considerations and protracted policy making procedures in several countries combining to exacerbate a regional crisis. Some states in East Asia enter a phase of populist authoritarianism. In Indonesia, this brings to power a charismatic nationalist leader determined to unify all of Malay Southeast Asia.
4. *Protracted communal conflict* between Muslim and non-Muslim populations begins in eastern Indonesia and spreads into southern Philippines, Malaysia and Thailand. Massacres of ethnic Chinese lead to growing pressure within China for Beijing to intervene. An increasingly Islamic Pakistan, and a range of Islamic terrorist groups, warn China against intervening.
5. A *technology-led economic boom* brings a concentrated surge of economic growth to East Asia, leading to a rise in regionalist identity and pride. This, and a defensive reaction from the US and Europe, drives the rapid formation of a regional political and economic bloc that begins to demand a greater say in global fora.